DOCUMENT RESUME

ED 451 771 HE 033 899

AUTHOR Wellman, Jane V.

TITLE Looking Back, Going Forward: The Carnegie Commission Tuition Policy. The New Millennium Project on Higher Education Costs, Pricing, and Productivity Working Paper.

INSTITUTION Institute for Higher Education Policy, Washington, DC.

SPONS AGENCY Ford Foundation, New York, NY.; Education Resources Inst., Boston, MA.

PUB DATE 2001-01-00

NOTE 16p.

PUB TYPE Historical Materials (060)

EDRS PRICE MF01/PC01 Plus Postage.

DESCRIPTORS *Educational Finance; Educational History; Educational Policy; *Higher Education; Income; *Public Policy; *Tuition

IDENTIFIERS *Carnegie Commission on Higher Education; Carnegie Commission Report

ABSTRACT

In thinking about the design of public policy for higher education finance, it may be instructive to look back at the evolution of finance policy and how it has worked over the last three decades of U.S. higher education. The vehicle for this exploration is the tuition policy framework developed by the Carnegie Commission on Higher Education published in 1973. This seminal work outlined an economic framework for formulating policy on higher education finance as well as specific recommendations for tuition and financial aid policies. The Carnegie Commission conducted a comprehensive review of revenue and expenditure trends in higher education and developed eight recommendations on directions for the future financing of higher education, including the role of student tuition as a source of revenue. An often-remembered recommendation was that resident student undergraduate tuition charges should average one-third of the institution's total cost to educate a student. This Commission's perspective on finance went well beyond this controversial recommendation to include a general framework to guide decisions about higher education finance between the states and the federal government, public and private institutions, and undergraduate and graduate education. The central findings of the Commission's 1973 work can be clustered into: (1) a framework for thinking about higher education finance and the role of tuition as revenue; (2) an analysis of revenue and expenditure patterns to determine "who pays"; (3) an examination of personal and societal benefits accrued from investment in higher education that highlights "who benefits"; and (4) recommendations on optimal pricing policies and overall strategy changes in investment in higher education. The Commission's recommendations were never implemented across the board, but they were influential in framing discussions about finance in higher education. The recommendations of the Carnegie Commission may not be practical in the current environment, but the framework and principles that guided the work are enduring and should be helpful to today's leaders as they struggle with difficult decisions and look for guidance on "best practice." (SLD)

Reproductions supplied by EDRS are the best that can be made from the original document.

ED 451 771

THE NEW MILLENNIUM PROJECT | WORKING PAPER

The Institute for Higher Education Policy

Looking Back, Going Forward:

The Carnegie Commission Tuition Policy

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

C.T. O'Brien

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

1

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

Prepared by
Jane V. Wellman, Senior Associate
The Institute for Higher Education Policy

The New Millennium Project on
Higher Education Costs, Pricing, and Productivity

SPONSORED BY:
The Institute for Higher Education Policy
The Ford Foundation
The Education Resources Institute

2

BEST COPY AVAILABLE

HE 035 844

The Institute for Higher Education Policy

Looking Back, Going Forward:

The Carnegie Commission Tuition Policy

WORKING PAPER

JANUARY 2001

Prepared by
Jane V. Wellman, Senior Associate
The Institute for Higher Education Policy

The New Millennium Project on Higher Education Costs, Pricing, and Productivity

SPONSORED BY:

The Institute for Higher Education Policy
The Ford Foundation
The Education Resources Institute

Acknowledgements

We would like to express our appreciation to our many colleagues who provided guidance and feedback on the data analysis that underlies this report and on the draft itself. In particular, we would like to thank Katheryn Volle Harrison for all of her work on this project.

The Institute for Higher Education Policy is a non-profit, non-partisan organization whose mission is to foster access to and quality in postsecondary education. The Institute's activities are designed to promote innovative solutions to the important and complex issues facing higher education. These activities include research and policy analysis, policy formulation, program evaluation, strategic planning and implementation, and seminars and colloquia.

For further information, please contact:
THE INSTITUTE for Higher Education Policy
1320 19th Street, NW, Suite 400 Washington, DC 20036
Phone: 202-861-8223/ Facsimile: 202-861-9307/ Internet: www.ihep.com

Foreword

This background report has been prepared for the New Millennium Project on Higher Education Costs, Pricing, and Productivity, jointly funded by The Ford Foundation and The Education Resources Institute. The essay is a retrospective analysis of the tuition policy framework for higher education presented in the 1970s by the Carnegie Commission on Higher Education—how it was constructed, how it was used, and what has changed since then. It was imagined at the outset that this work would lead to suggestions of a similar framework, redesigned to meet the needs of the 21st century. Detours have occurred along the way, however, with the result that much of the early analysis found its way into different vehicles of the New Millennium Project: *Reaping the Benefits*, a report about the broad social purposes and benefits of higher education; *The Tuition Puzzle*, an assessment of tuition policy; and *State of Diffusion*, a report on the purposes of financial aid. More importantly, it seemed to us that higher education has so profoundly changed since 1975 that a single framework designed to influence policy simply will not fit the bill in the current environment. Nonetheless, we found ourselves drawn back to the analysis because of its clarity and power of reasoning. Despite all that has changed, we believe that much of the Commission's original thinking remains relevant today. We hope with this retrospective to refresh the memories of those who have lived with the Carnegie Commission framework but may have forgotten parts of it, and to educate a new generation of policy leaders on its core values and tenets, which we find to be both timeless and deserving of new attention.

TABLE OF CONTENTS

Introduction 1

The Carnegie Comission 2

The Framework 3

Recommendations for the Future Policy Framework 5

Implementing the Commission's Recommendations: What Happened? 7

Revisiting the Framework 9

Conclusion 10

Looking Back, Going Forward: The Carnegie Commission Tuition Policy

The start of the new century has inspired a plethora of articles about the future of higher education and how it will differ from the past. Until a decade ago, articles of this sort ended with comments about the slow pace of change within higher education, which alone among the major social institutions (family, church, state, and education) looked comparatively stable. That is no longer the case: the combination of technology, the growth of demand for lifelong learning, and the de-institutionalization of teaching and learning all herald the arrival of profound change in higher education.

The depth of change in the enterprise is such that planners and policymakers find themselves somewhat at a loss on the direction of change and ways to influence it: the tools of policymaking through government finance or regulation seem either not to work or are no longer a viable option. Across the country, state "system" approaches to policy are being rethought or abandoned in favor of agendas of deregulation and competition, with the intent of letting the higher education market play a major role in determining the course of action. Similarly, at the federal level, interest has shifted from how the federal government can ensure economic access to higher education, to an "affordability" agenda of loans, tax credits, and strategies to help families manage college costs. At this writing, the economy continues to grow without serious signs of inflation, and both federal and state budgets for higher education are good. Yet, even in this economy, signs of trouble are beginning to accumulate from fissures that could develop into serious fault lines if left unattended:

- Sticker prices (the advertised tuition and fee amounts) at both public and private institutions continue to grow faster than inflation. Net prices are still rising faster than inflation, even after discounting for grant aid.
- In public institutions, the single biggest cause of tuition increases has been a reduction in state spending. In this sector, tuition increases can be held down while the economy is good and state funding is stable. Higher education remains very vulnerable, however, and when the present boom economy begins to slow, the double-digit tuition increases of the past could well return.
- In private institutions, prices are going up because institutions are spending more; much of the increase has been in institutional merit-based grant aid given to students who expect tuition discounts. The discounting phenomenon has been particularly pronounced in less selective, tuition-dependent institutions. Worried about the prospect of market failure or government intervention, many private college observers are calling for stepped-up efforts at institutional self-discipline through tuition freezes or rollbacks. So far, however, the spiral of increased discounting shows no signs of slowing down or reversing, leading some economists to worry that higher education pricing is developing attributes of an arms race, with no end in sight.

While these trends are troubling, it is too early to declare the situation a disaster. The U.S. system of colleges—public, private, and proprietary—is large and complex, and institutions are proving to be very adaptable. However, it may be the case that the 20-year trajectory away from policy toward the market has almost run its course, and that some adjustments are in order—if not a completely regulated system, then perhaps a combination of planned, policy-based interventions and market solutions.

In thinking about the design of public policy for higher education finance, it may be instructive to begin by looking backward at the evolution of finance policy and how (if at all) it has worked in the last three decades of American higher education. This look back may be particularly helpful in forming opinions about the role of policy and planning in influencing change. The vehicle for this exploration is the "Who Pays, Who Benefits" tuition policy framework developed by the Carnegie Commission on Higher Education and published in 1973. Operated under the chairmanship of former University of California President Clark Kerr, the Commission drew upon the talents of a previous generation of higher education planers and economists, including Joseph Pechman, June O'Neill, and Howard Bowen, whose work remains among the very best produced in the field. Under Kerr's leadership, the group produced a body of work. Some of their efforts culminated in policy recommendations to national, state, and institutional audiences, of which the most well known and enduring is the 1973 work *Higher Education: Who Pays? Who Benefits? Who Should Pay?* This seminal work outlined an economic framework for formulating policy on higher education finance, as well as specific recommendations for tuition and financial aid policies. Embedded in this framework are assumptions about the role of higher education in society and the public and private purposes that should underlie a finance system.

The "Carnegie Commission framework," as it came to be known, played an unusual role in stimulating policy debate and in influencing decisions. While most of the recommendations of the work were not fully implemented, the clarity of the recommendations and the quality of the work make it stand out in higher education policy.

It has been more than a quarter of a century since the Commission completed their work, and higher education has since undergone a sea change in financing, delivery systems, and enrollments. Stepping back from current realities of higher education may yield insights about both the direction of change in higher education and the ways in which the enterprise can be shaped by public policy.

The Carnegie Commission

The Carnegie Commission conducted a comprehensive review of revenue and expenditure trends in higher education and developed eight recommendations on directions for the future financing of higher education, including the role of student tuition as a source of revenue. An often-remembered recommendation is that resident undergraduate student tuition charges should average one-third of the institution's total cost to educate a student. This recommendation created controversy, as it was perceived as an abandonment of low tuition at public institutions and a call for higher prices for graduate education. The rationale behind this recommendation and other aspects of the Commission's framework was lost in the controversy and largely has been set aside or forgotten. However, the Commission's perspective on finance went considerably further than the "one-third of cost" recommendation, including a recommendation for a general framework to guide decisions about higher education finance between the states and the federal government, public and private institutions, and undergraduate and graduate education.

The central findings and recommendations of the Commission's 1973 work can be clustered into four sections: 1) a framework for thinking about higher education finance and the role of tuition as revenue; 2) an analysis of revenue and expenditure patterns to get at the issue of "who pays"; 3) an examination of the range of personal and societal benefits accrued from investment in higher education that highlight the issue of "who benefits"; and 4) recommendations on optimal pricing policies and overall strategy changes in investment in higher education to achieve greater equity and productivity.

The Framework

The Commission found it useful to distinguish among several aspects of college costs and argued that the net "fairness" of the financing system required a balanced look at all of these dimensions:

- the nominal price charged to students, or the full cost of tuition and fees prior to financial aid;
- the out-of-pocket cost to the student or family, which includes the price plus room and board, books, supplies, travel, and other living costs;
- the institutional cost of educational services, which in almost all cases is higher than the price charged to students since higher education is subsidized from public funds and endowments, as well as with tax exemptions and private gifts; and
- foregone income, or the opportunity costs of attending college for students. The Commission believed that a complete picture of higher education finance required an understanding of the relative contributions to the economy from college attendance in contrast to the employment of students. The Commission also believed that the cost of lost income was higher in relative terms for low-income students than for wealthier ones, and that because the majority of future students were likely to be older, working, and low-income, it was important to include that measure as part of the total cost of higher education.

Estimates of the Cost of Education and Sources of Revenue

Drawing on studies prepared by June O'Neill, the Commission developed a series of income sources for higher education institutions dating back to 1929-30. The universe of institutions in their analysis was degree-granting, public, or private, non-profit institutions of higher education. No proprietary institutions were included, and institutions that offered certificates but not degrees also were excluded. Adjustments were then made to revenues to separate *institutional funds*—all of the funding that passes through the institutional accounts for all educational and non-educational purposes—from *educational funds*, or expendable funds, which are designated for educational support or are unrestricted as to how they can be used. The difference between institutional and educational funds was determined by deducting items received for non-educational services from institutional funds. The Commission did not attempt to isolate funds specifically reserved for instruction from other functions, although they did exclude revenues for contracted services and research. Specifically, the adjustments to revenue were:

- **Adjustments for federal research**. Three-fourths of federal funding for research were deducted from income categories and the remaining one-fourth was assumed to be related to basic support of education in which research is a joint product. Recognizing that this deduction was arbitrary, the Commission concluded that it reasonably reflected the proportion of research related to instruction that would have to be provided from some source, absent the federal research funding to provide the same level and quality of education. An alternative way of expressing the basis for this assumption would be to say that three-fourths of sponsored research activities could be contracted for with non-educational agencies.
- **Sale of services.** Fee-based services (for instance from hospitals) were deducted.
- **Related income**. Fees for extension programs, athletic and artistic events, and operations of real estate were deducted.
- **Student aid income**. Funding for student aid was deducted as current income, but included as an offset to family expenditures. The revenues were not included in the "family" categories, however, but assigned to the relevant income source, largely federal, state, or philanthropic sources. To not deduct

student aid from income would have the effect of "double-counting" this revenue source. Student loan funds also were excluded from revenue sources, although loan subsidies were included. Funding for institutional aid was likewise segregated into the relevant sources—governmental, private, or institutional.

- **Auxiliary enterprise**. Funding for all auxiliary enterprises (such as dormitories, cafeterias, bookstores) was excluded, so as to not double-count spending for these activities when student subsistence costs are added as a family cost.

Finally, the Commission measured how responsibility for paying for college had shifted between the family (students and parents), government (federal, state, and local tax dollars), and private sources (philanthrophy and other) using three different estimates of funding for higher education: 1) total educational funds (the adjusted base revenues mentioned above); 2) monetary outlays (educational funds plus subsistence costs and student aid); and 3) total economic costs (monetary outlays plus foregone income). Foregone income, or lost earnings, is an estimate of what students could have earned in full-time employment had they entered the labor force instead of college. This estimate was calculated by multiplying the number of full-time equivalent (FTE) students enrolled in higher education times the average weekly earnings of 18 to 21 year-old high school graduates in the labor force, times 40 weeks of employment, minus an allowance for estimated unemployment (assumed to be twice the overall national rate).

Who Pays?

Using their framework for characterizing college financing, the Commission found that student tuition revenue accounted for approximately one-third of the monetary outlays for all of higher education, including both public and private, while revenues from public or other sources accounted for two-thirds. However, when total outlays (including the value of foregone income to enrolled students) were counted, two-thirds of revenues came from students and one-third came from other forms of subsidy.

In a complicated recreation of expenditure data between 1929 and 1970, the Commission estimated how the relative share of student tuition revenue as a proportion of total costs might have changed over time. They found that the tuition and fee portion of total family costs had declined in constant dollars from 1929-30 to 1969-70.

When subsistence costs and foregone income were included, they found that the one-third to two-thirds between private and public revenues had held remarkably constant since 1930. A major reason for the constancy had to do with the relative decline of private education and the ascendance of public education

Who Paid for Higher Education: Relative Shares of Spending Between Families, Taxpayers, and Philanthropy, 1970-71

	Funds from families (includes loan repayments)	*Taxpayer (federal, state, or local)*	*Philanthropic*
A) Total educational funds	30%	60%	10%
B) A + spending for student aid and subsistence costs	37%	54%	9%
C) B + foregone income	64%	31%	5%

BEST COPY AVAILABLE

Tuition and Fee Charges, Subsistence Costs, Student Aid Offsets, and Net Foregone Income as Percentages of Total Family Economic Costs of Higher Education, 1929-30 to 1969-70					
	1929-30	1939-40	1949-50	1959-60	1969-70
Tuition and fees	23.0%	25.8%	16.3%*	16.2%	18.4%
Subsistence costs	58.8%	52.6%	51.6%	27.2%	24.3%
Less student aid	-2.1%	-2.9%	-43.5%*	-6.2%	-9.8%
Net foregone incomes	20.4%	24.4%	75.6%	62.8%	67.1%
Total	100%	100%	100%	100%	100%

* In 1949-50, all tuition payments made by the Veterans' Administration to private institutions and one-half of the cost of education allowances paid to public institutions have been included both as tuition and fee charges and as student aid.

during the 50-year interval of the analysis, as tuition funds paid for a much higher percentage of total institutional expenditures in private institutions than in public institutions. Tuition revenues accounted for only 17 percent of total direct expenditures in public institutions at the time of the Commission's work, in contrast to 59 percent in private, non-profit institutions. Yet total spending in public institutions had changed dramatically between 1930 and 1970 in contrast to private institutions: in 1930, spending in public and private institutions was approximately the same, but by 1970, private spending had slipped, equaling 46 percent of public spending.

The Commission also evaluated funding for higher education in the national economic context. Total monetary outlays for higher education were $224 billion in 1970, or 2.5 percent of the national production of goods and services, or the gross national product (GNP). This number has risen steadily since 1955, when higher education expenditures were slightly less than 1 percent of the GNP.

Who Benefits?

The Commission reasoned that benefits of investment in higher education take many forms, both for the individual and for society as a whole. The most easily measurable benefits are economic benefits in the form of higher lifetime earnings that accrue to individuals who participate in higher education. Using data on average incomes by educational level from the Bureau of Labor Statistics, the Commission concluded that the economic benefit of attending college increased with each level of attainment: students with associate's degrees earned less than bachelor's degree holders, who earned less than professional and doctoral degree holders. Accompanying higher lifetime earnings are other benefits to individuals, including greater job mobility, more control of leisure time, and the economic capacity to live in communities with better housing and schools. Examples of broad social benefits from investment in higher education are lower crime rates, reduced social expenditures, and increased voter turnout. The Commission also extolled the importance of higher education in creating tolerance of differences in others, and openness to economic, social, and political change.

Recommendations for the Future Policy Framework

The Commission recommended eight general principles to guide future financing decisions, based on their analysis of "who pays, who benefits, and who should pay:"

1) **Public and private subsidies.** Higher education is both a public as well as a private good, and investment in higher education should reflect both dimensions. The mix of resources should reflect the different purposes of different programs in terms of goals and audiences, public and private benefits, and costs.

2) **The public/private benefit continuum.** The benefits from investment in higher education in terms of lifetime incomes and enhanced personal opportunities are greater in upper-division and graduate or professional education than at entry levels. Public benefits are greatest at entry levels.

3) **Tuition charges should reflect costs.** While public subsidies are generally justified in all programs because of the public benefits from higher education that occur at all levels, student tuitions should reflect the cost of programs. Higher cost programs should charge higher tuitions.

4) **Student loans.** Student loan financing should be available to enable students to attend high cost programs.

5) **Financial aid.** Responsibility for ensuring economic access to higher education is a broad-based public responsibility and should be funded from the widest source of revenue.

6) **Tuition and aid tied together.** Economic access can be maintained despite higher charges through appropriately structured student aid programs. As tuitions increase, so should funding for financial aid.

7) **The benefits from private higher education.** In private higher education, the benefits of investment are essentially the same as the benefits to investment in public higher education. Therefore, a mix of public and private funding strategies are appropriate for private higher education, as well as for public higher education.

8) **The opportunity costs of college.** Foregone income, as well as subsistence costs, are legitimate elements of the cost of education and should be factored into the calculus of responsibilities for funding higher education. Opportunity costs in particular represent a higher percentage of family income for low-income students than for middle- and upper-income students.

Based on this foundation of policies, the Commission recommended some specific structures for implementation that, in their view, would best accomplish these policies. Their recommendations were intended to provide a basis for decision-making over a 10-year horizon through the mid-1980s. They were:

1) Public undergraduate tuitions *on average* should account for one-third of the total cost to educate the student. Tuitions should be kept as low as possible in the first two years and subsequently be allowed to rise at successive levels. Tuitions at the graduate and professional level should rise to reflect the greater personal reward in terms of higher salaries from advanced degrees, as well as the higher average costs to educate graduate students.

2) Public responsibility for funding higher education should increase, and the private responsibility (tuition and philanthropic shares) should decline. The expanded public investment should come largely through growth in federal responsibility for funding economic access to higher education with increased funding for student aid.

3) There should be a considerable expansion of loan financing for higher education, including income contingent loan repayments, to enable students to afford higher priced programs and institutions and to repay the costs from the higher incomes accrued.

4) The percentage of GNP spent on higher education should continue to rise from 2.5 percent to approximately 2.7 percent to reflect the increased impor-

tance of investment in higher education to human capital development.

5) Opportunities for students to choose private colleges should be ensured through state policies designed to reduce the price differential between private and public institutions.

6) States should invest in opportunities for private higher education through investment in state student aid programs structured to equalize opportunity for students to private colleges.

Implementing the Commission's Recommendations: What Happened?

Although the Commission's recommendations were never implemented across the board, they were influential in framing discussions about pricing policy within higher education and the government. They also generated some controversy, particularly at the state level. Since revenue from public tuition at the time accounted for only 17 percent of direct public spending, the call for tuitions to be set at one-third of costs was perceived as providing a basis for state government to raise tuitions and reduce public funding. Likewise, the call for cost-based tuition structures led to considerable debate about how to calibrate the cost of instruction as opposed to the cost of other functions such as research, and about the role of tuitions in paying for indirect as well as direct costs. While the Commission had subtracted funded research from expenditures, they had agreed with economist Howard Bowen that unfunded research (largely paid for through reduced teaching loads in institutions with research missions) benefitted students and should therefore be counted as a cost of instruction. The intensity of debate that these issues provoked led the Carnegie Council on Policy Studies in Higher Education to follow up *Who Pays? Who Benefits?* with a subsequent piece in 1975 that clarified their call for low tuition in the community colleges and retreated to some extent from their earlier position about charging graduate students for the costs of instructionally related research.

At the time, government policymakers—particularly within the federal government—may have been more receptive to the Commission's recommendations than was the case within higher education. The Commission's recommendations about financial aid and its role in ensuring access despite rising prices found a receptive federal audience. The call for a broad-based federal aid program helped lead to the expansion of the Basic Educational Opportunity Grant program in the 1972 Reauthorization of the Higher Education Act. Similarly, the Commission's arguments to expand the availability of loan financing with flexible repayment options helped pave the way toward the massive expansion of the federally subsidized loans programs. The axiom that tuition increases should be accompanied by increases in grant aid has become embedded in tuition and aid policies in most institutions and states. Oddly enough, the Commission's call for undergraduate tuition to approximate one-third of costs has in many quarters been transmuted into an axiom that one-third of the costs of tuition increases should be set aside for student financial aid—a specific percentage set-aside that was not part of the Commission's original recommendation and seems not to be based on any subsequent analysis of what the "right" amount should be.

One of the most enduring effects of the Commission's work may have been its recommendations about how to think about higher education finance, in terms of prices (what students and families pay), costs (what institutions spend), and subsidies (general purpose revenues either from government or endowment sources). These same terms have become embedded in most national work about higher education finance. The growth in the role of financial aid, particularly institutional aid funded by redirected tuition revenues, has led analysts more recently

to refine the language further, to distinguish between "sticker prices" and "net prices" (tuition minus aid).

Although the Commission's recommendations had some effect within higher education and in public policy, it could not anticipate the sweeping changes in higher education that have significantly altered the face of the enterprise. To illustrate these changes, we have recreated the analysis of "who pays, who benefits" framed by the Commission, replicating their methodology as much as possible by looking only at degree-granting public and private, non-profit institutions and making the same adjustments to revenues. This analysis reveals what has happened to patterns of finance for these institutions, but not necessarily the whole picture of finance in postsecondary education since data from non-degree and proprietary institutions are excluded. Data on subsistence costs were taken from the College Board's reports, and foregone income was estimated using data from the Bureau of Labor Statistics based on the same methodology used by the Commission. The table below, with the 1973 Commission benchmarks shown in parentheses, begins to reveal the nature of these changes:

Changes in the *family share of financing*, as a percentage of:

- Total educational expenditures (A) increased from 30 percent to 39 percent.
- Total spending (B), including student aid and subsistence costs, increased from 37 percent to 57 percent.
- Total economic outlays (C), including foregone income, 64 percent to 72 percent.

Changes in the *taxpayer share of financing*, as a percentage of:

- Total educational expenditures (A) decreased by 11 percent, from 60 percent to 49 percent.
- Total spending (B), including student aid and subsistence costs, decreased by 18 percent, from 54 percent to 36 percent.
- Total economic outlays (C), including foregone income, decreased from 31 percent to 23 percent.

Changes in the *philanthropic share of financing*, as a percentage of:

- Total educational expenditures (A) increased from 10 percent to 12 percent.
- Total spending (B), including student aid and subsistence costs, decreased from 9 percent to 8 percent.
- Total economic outlays (C), including foregone income, did not change, remaining steady at 5 percent.

The strongest single theme that emerges from this comparison is the privatization of finance in higher education in terms of the shift in responsibilities for funding away from government and to students and families, even in the collegiate two- and four-year public and private institutions. If the growth in proprietary

Relative Shares of Spending Between Families, Taxpayers, and Philanthropy, 1995-96

1995-96 Spending	*Funds from families*	*Taxpayer (federal, state, or local)*	*Philanthropic*
A) Total educational expenditures	39% (30.2%)*	49% (59.5%)	12% (10.3%)
B) A+ spending for student aid and subsistence costs	57% (36.7%)	36% (54.3%)	8% (9.0%)
C) B + foregone income	72% (64.2%)	23% (30.7%)	5% (5.2%)

*Values in parentheses are the benchmarks put forth by the Commission in 1973.

education were to be factored in as well, the shift toward privatization of finance would be even more extreme because these institutions are almost entirely tuition-financed. Among the degree-granting institutions, there has been a shift of 10 percentage points away from government financing to family financing before spending on financial aid and subsistence are factored in. When spending for financial aid and subsistence are included, the shift grows from 10 to nearly 20 percentage points; most of this growth is accounted for by the increase in revenue from financial aid, since subsistence costs have increased at roughly the rate of inflation. In addition, the sources of revenue for financial aid have changed significantly, moving away from grant-based aid to loan aid, and to institutional revenues as the fastest growing source of grant aid. The recommendation that economic access is a social responsibility that should be funded from the broadest possible revenue source has been turned on its head; instead, responsibility for economic access has shifted from the government to the institution, and, increasingly, to students in the form of redirected institutional aid.

Revisiting the Framework

Looking back at the Carnegie Commission's recommendations gives rise to a sense of nostalgia for a time in higher education and public policy when thoughtful people imagined that government could make rational decisions based on evidence and a theory of the public interest. The current environment has changed so much at both the federal and state levels that it is hard to envision how a new policy framework might look, except to predict that it would be based on public opinion and polling data as much as on economic analysis. There is also a tendency for current work to focus on technical and methodological issues, rather than on questions of social purpose or roles and responsibilities between the states, individuals, and government.

The politics of the moment are just one reason why a comprehensive policy framework does not make sense in this environment. Although the Carnegie Commission developed recommendations designed to fit both public and private institutions, the thrust of their work addressed the public side of the equation, and in particular state and federal policy. At the time, private higher education was synonymous with the non-profit sector. The role of policy—whether financial or regulatory—in shaping behaviors in for-profit institutions was not part of the calculus of the 1970s. Even more complicated, the patterns of marbleized finance that now dominate higher education were not explicitly part of the equation. Many public institutions now obtain a majority of overall revenues from non-tax sources, most private institutions are more dependent on public revenues now than 20 years ago, and both public and private, non-profit institutions often operate with for-profit partners or subsidiaries. These kinds of financial complications, which also carry implications for governance, were much less prevalent in the 1970s. Institutions were then presumed to be collegiate, degree-granting institutions, operating in the public interest and paid for with some form of tax subsidy.

Nonetheless, the basic questions about purpose and equity that were underlying the work of the Carnegie Commission are at least as important in 2001 as they were in the 1970s. The erosion of tax support for higher education at both the federal and state levels means that higher education increasingly is a privately financed enterprise: as society's need for higher education has increased, government commitment to fund institutions has eroded. In its stead is an emerging pattern of student market-driven subsidies, where student aid has become a major vehicle for distributing subsidies to institutions that increasingly are funded with tuition revenue in addition to public or philanthropic sources.

Several new dimensions need to be added to the earlier recommendations to accommodate changes in responsibilities for paying for higher education. The first is the shifting relation of tuition revenue to general subsidies, and how those patterns differ by level of instruction, cost of service, and student groups. A related issue is the movement of resources across expenditure areas and the cross-subsidies between instruction and other areas. Associated with this question is the issue of whether tuitions should be set in relation to functional costs, i.e., in relation to the direct cost of instruction, or in relation to the bundled costs of whole sets of activities including teaching, service, research, and cultural activities. This will be particularly important in tuition policies for courses delivered via technology, where distance education students and campus-based students will receive different educational experiences.

Conclusion

The dilemma of rising college prices is one of the more daunting challenges facing leaders of United States higher education. Despite much public hand-wringing and protestations from institutions about efforts to contain prices, most analysts predict that prices will continue to rise in the near future, largely because the market will allow them to do so. Student enrollment demand is strong, the rewards of going to college in terms of lifetime earnings are higher than ever, and there is an abundance of capital in the form of loans, tax credits, and public subsidies to help families cover the tuition bills. While the price trajectory may be manageable for institutions with the most favorable market positions—in particular, highly selective research institutions with large endowments, diverse funding sources, and strong student demand—it presents deeper problems for smaller regional institutions, both public and private, who are experiencing weak enrollment demand and chronic funding shortfalls. There is some evidence, too, that higher prices are hurting access for low-income students, who even with financial aid are increasingly shifting to enrollment at lower-priced public institutions. The most enduring problem may well be invisible, in the lowered expectations for a generation of potential first-time college students, who may conclude that they will not be able to afford to go to college, and as a result do not try to excel academically.

Public officials and college leaders have been loathe to propose policy steps to focus attention on price control above other institutional priorities. Across the board price controls for public institutions do not make a lot of sense, given the wide range of types of institutions, programs, and students. Public policy influences on private colleges are particularly difficult to engineer. Apart from the hesitancy of government officials to intrude into private college matters, the most obvious way for government to control prices in private colleges is to cut federal and state financial aid, which hurts the students who are the supposed objects of public policy concern. The lack of good models to help guide pricing decisions contributes to the reticence that most public officials display on this topic. Most elected officials and college leaders want to ensure quality and opportunity through growth in resources and prefer to permit continued price increases rather than cut budgets. Without evidence that higher prices are seriously hurting access or quality, no intervention is likely.

It may be time to think about how to structure tuition policies in anticipation of the access/price equation reaching a breaking point. All of the specific recommendations of the Carnegie Commission may not be practical in the current environment. The framework and principles of finance that guided the work, however, are enduring and should be helpful to today's leaders as they struggle with difficult decisions and look for guidance on "best practice."